

Message Text

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ACTION SP-02

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E.O. 11652: N/A
TAGS: ECON
SUBJECT: FOREIGN ECONOMIC POLICY

REF: STATE 164983

1. WHILE GUINEA PRESUMABLY SHARES SOME OF THE PROBLEMS OF OTHER AFRICAN NATIONS WITH PER CAPITA INCOMES OF \$200 OR LESS, STATE CONTROL OF ECONOMY, AND PARTICULARLY THE FIXING OF UNATTRACTIVELY LOW PRICES FOR AGRICULTURAL PRODUCTS, MAY BE A MORE PRONOUNCED NEGATIVE FACTOR HERE THAN IS THE CASE OF MANY OTHER STATES. UNTIL THIS PROBLEM IS CORRECTED, GUINEAN AGRICULTURAL PRODUCTION IS APT TO LANGUISH, HOLDING BACK THE NEED FOR INFRASTRUCTURAL PROJECTS. IBRD PROJECT OFFICER HAS BEEN STRUCK BY LOW VEHICLE-PER-HOUR USAGE COUNT FOR MAIN ROADES IN GUINEA RECENTLY REBUILT BY BANK.

2. WE NOTE THE LACK OF EMPHASIS ON MULTILATERAL AID AND
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LENGING AGENCIES IN REFTEL. THEIR INFLUENCE ON LDC GOVERNMENT ECONOMIC POLICY CAN BE MORE IMPORTANT THAN THEIR ACTUAL AID. IFIS CAN ENGAGE IN WORTHWHILE PROJECTS WHICH FOR POLITICAL REASONS ARE OFF LIMITS TO BILATERAL DONORS. SUCH PROJECTS MAY OFFER LINKAGE WITH A USAID PROJECT. IFI PLANNING AND PROJECTS SHOULD BE CONSIDERED INTEGRAL PART OF USAID APPROACH TO PARTICULAR

COUNTRY WITH JOINT EFFORT, INTERLOCKING OR INTERFACING PROJECTS ARE POSSIBILITIES. EXAMPLE COULD BE FINANCING FOR ROADS PROJECT BY IFI AND AGRICULTURAL PROJECT GENERATING TRAFFIC FOR NEW ROADS BY AID. THIS CAN BE ONE TOOL TO DEAL EFFECTIVELY WITH CONGRESSIONAL CONSTRAINT ON INFRASTRUCTURE PROJECTS WHILE REMAINING WELL WITHIN SPIRIT OF BASIC HUMAN NEEDS FOCUS.

3. WE BELIEVE US ASSISTANCE FOR LOCAL COST FINANCING HAS HIGH POTENTIAL FOR INFLATIONARY PRESSURE. IF LOCAL COSTS WERE FUNDED BY USG IN FOREIGN CURRENCY, AND HOST GOVERNMENT MISSENT OR OTHERWISE WASTED THESE FUNDS AT SAME TIME IT PAID LOCAL COSTS WITH MATCHING LOCAL CURRENCY, INFLATIONARY EFFECT WOULD FOLLOW. EFFECT WILL BE AMPLIFIED IF PROJECT IS IN RELATIVELY ISOLATED REGION. IF USG PROVIDED GOODS IN KIND (FOOD, EQUIPMENT, ETC.), INFLATIONARY PROBLEM WOULD BE REDUCED BUT NOT ELIMINATED. GOODS SHOULD BE MADE AVAILABLE FOR PURCHASE IN REGION WHERE FUNDS ARE ACTUALLY DISBURSED. " RECIPIENTS BUDGET CONSTRAINTS" REFERRED TO IN PARA 6 REFTEL ARE IN FACT REAL RESOURCE LIMITS, NOT EASILY RESOLVABLE FINANCIAL CONSTRAINTS.

4. WE DO NOT FEEL LOCAL PRIMARY PRODUCT PROCESSING IS NECESSARILY FRUITFUL APPROACH FOR AID: (1) IT MAY AMELIORATE BUT NOT RESOLVE BASIC PROBLEM OF COMMODITY LIMITED OFFICIAL USE

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PRICE FLUCTUTATIONS: (2) MOST PROCESSES, TO BE EFFICIENT, MUST BE CAPITAL INTENSIVE, THUS NOT MEETING UNEMPLOYMENT PROBLEM OR BASIC HUMAN NEEDS CRITERIA; AND (3) SEVERAL COUNTRIES HAVE BASIC PROBLEM OF LONG-TERM DECLINE IN OUTPUT.

5. COMMODITY DIVERSIFICATION CAN LEAD TO ALLEVIATION OF BALANCE OF PAYMENTS CONSTRAINTS RELATIVELY QUICKLY WITH RELATIVELY LOW FOREIGN EXCHANGE INPUT AND POSITIVE BENEFITS TO WORLD ECONOMY. PROBLEM, IN SOME COMMODITIES, OF US SUPPLY BY FEW MAJOR PRODUCERS, MIGHT BE ALLEVIATED IN THIS WAY. AT SAME TIME IMPACT OF CYCLICAL COMMODITY PRICE SWINGS ON LDC ECONOMY WOULD BE LESSENED BY DIVERSIFICATION.

6. EXPANSION OF GSP SCHEME DOES NOT BENEFIT POOREST COUNTRIES SINCE THEY HAVE SO FEW EXPORTS TO US IN GSP CATEGORIES. US DOES NOT POSE PROMISING MARKET FOR MANUFACTURED GOODS OF MOST AFRICAN COUNTRIES DUE TO HIGH TRANSPORT COST (COMPARED TO AFRICAN COMPETITORS LIKE LATIN AMERICA AND CARIBBEAN).

7. SPECIAL ENCOURAGEMENT OF PRIVATE INVESTMENT MIGHT BE USEFUL SINCE US BUSINESS SEEMS TO LACK AWARENESS OF AFRICAN BUSINESS POSSIBILITIES. MULTINATIONAL INVESTMENT THROUGH CONSORTIA OF COMPANIES FROM DIFFERENT COUNTRIES MAY OFFER LEAST POLITICAL RISK FOR USG AND INVESTOR. THIS IS ESPECIALLY TRUE FOR MINING PROJECTS.

8. IN EMBASSY VIEW, IMF AND IBRD REMAIN BETTER WAY TO INFLUENCE GOVERNMENT DEBT MANAGEMENT, IMPORT POLICY AND FOREIGN EXCHANGE MANAGEMENT THAN BILATERAL BALANCE OF PAYMENTS ARRANGEMENTS.

9. WE AGREE THAT MANPOWER TRAINING IS POTENTIALLY IMPORTANT AREA FOR ASSISTANCE. INITIALLY, VALUABLE LIMITED OFFICIAL USE

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WORK COULD BE DONE EASURING EXISTING PARAMETERS OF LABOR FORCE AND FUTURE NEEDS. WITHOUT BASIC DATA, MANPOWER TRAINING RISKS DOING UNNECESSARY JOB.

10. POSSIBILITY OF FORMING TEAMS OF SPECIALISTS AT VARIOUS USG TECHNICAL AGENCIES READY TO ANSWER SPECIFIC NEEDS STRIKES US AS PARTICULARLY GOOD WAY TO BE RESPONSIVE. FLEXIBILITY AND QUICK RESPONSE COULD BE BUILT INTO PROGRAM LIKE THIS TO MAKE IT EFFECTIVE TOOL.

11. LIBERAL POLICY ON FINANCING RECURRING COSTS MAKES SENSE TO US SINCE FREQUENT REASONS FOR FAILURE OF DETERIORATION OF AID PROJECTS INCLUDE LACK OF SPARE PARTS AND DEPARTURE OR EMIGRATION OF TRAINED LOCAL MAINTENANCE PERSONNEL.

12. WE CONCUR WHOLEHEARTEDLY THAT MINI-MARKETS POSE OBSTACLE TO DEVELOPMENT. ECOWAS AND OTHER ORGANIZATIONS THAT TEND TO REINFORCE REGIONAL COOPERATION SHOULD BE ENCOURAGED. THEY CAN MODERATE EXTREME VIEWS, ENCOURAGE MARKET APPROACH TO DEVELOPMENT AND AT SAME TIME LEAD TO GREATER POLITICAL STABILITY IN AREA. NOT ALL REGIONAL ORGANIZATIONS WILL BE EFFECTIVE BUT THOSE THAT ARE SHOULD BE GIVEN US ASSISTANCE.
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